Edgeworth Economics

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Oral Testimony of Dr. Kara Gorski

Before the Washington D.C. Taxicab Commission

June 16, 2010

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My name is Kara Gorski. I am a Ph.D. economist and Vice President of Edgeworth Economics, an economic consulting firm located in Washington, D.C. I have a Ph.D. in economics from the University of Illinois, Urbana-Champaign. As a professional economist for the past seven years, I have studied valuation issues in a variety of industries. My colleague, Dr. John Johnson, and I each have been asked by the DC Professional Taxicab Drivers Association and the Dominion of Cabdrivers to discuss today some basic economic facts about taxicab fares in the Washington DC metro area.

The DC taxicab commission is tasked with determining whether the current rates for cab fares have been set in a manner that is fair, equitable, and compensates taxicab drivers for their costs incurred. One simple way to examine whether DC's prevailing taxicab rates are appropriate is to compare those rates to relevant benchmark rates. We have studied three such benchmarks, which we will testify about today.

One useful metric is a comparison of fares in Washington DC to those in surrounding areas, such as Virginia and Maryland. Another metric is to compare taxicab fares in Washington DC to those in other major US cities, accounting for differences in costs of living. A third helpful metric is to compare Washington DC taxicabs fares to the costs of other modes of transportation, such as Metro rail or bus. These simple comparisons are easy to understand and provide the Commission with a clear picture of where DC taxi rates are relative to other benchmark groups. In addition to these comparisons, we also will discuss the supply of taxicabs in DC relative to other metropolitan areas, which we believe ultimately may provide some explanation as to why DC's rates are relatively low.

Comparison to Surrounding Areas

We studied taxicab rates in several jurisdictions in Maryland and Virginia, including Alexandria and Arlington in Virginia and Bethesda, Maryland. We did so by calculating the current cost of a 5 mile taxi ride with a 5 minute wait. In DC, the cost of this trip is $11.50 and is the lowest of any fare in the area.

The fares in surrounding areas range from 11 to 42 percent higher than those of DC. Prince George's County, MD has the second lowest fare, costing $12.75 for a 5 mile ride with a 5 minute wait. Bethesda, MD is among the highest fares, costing $16.33 for the same trip.

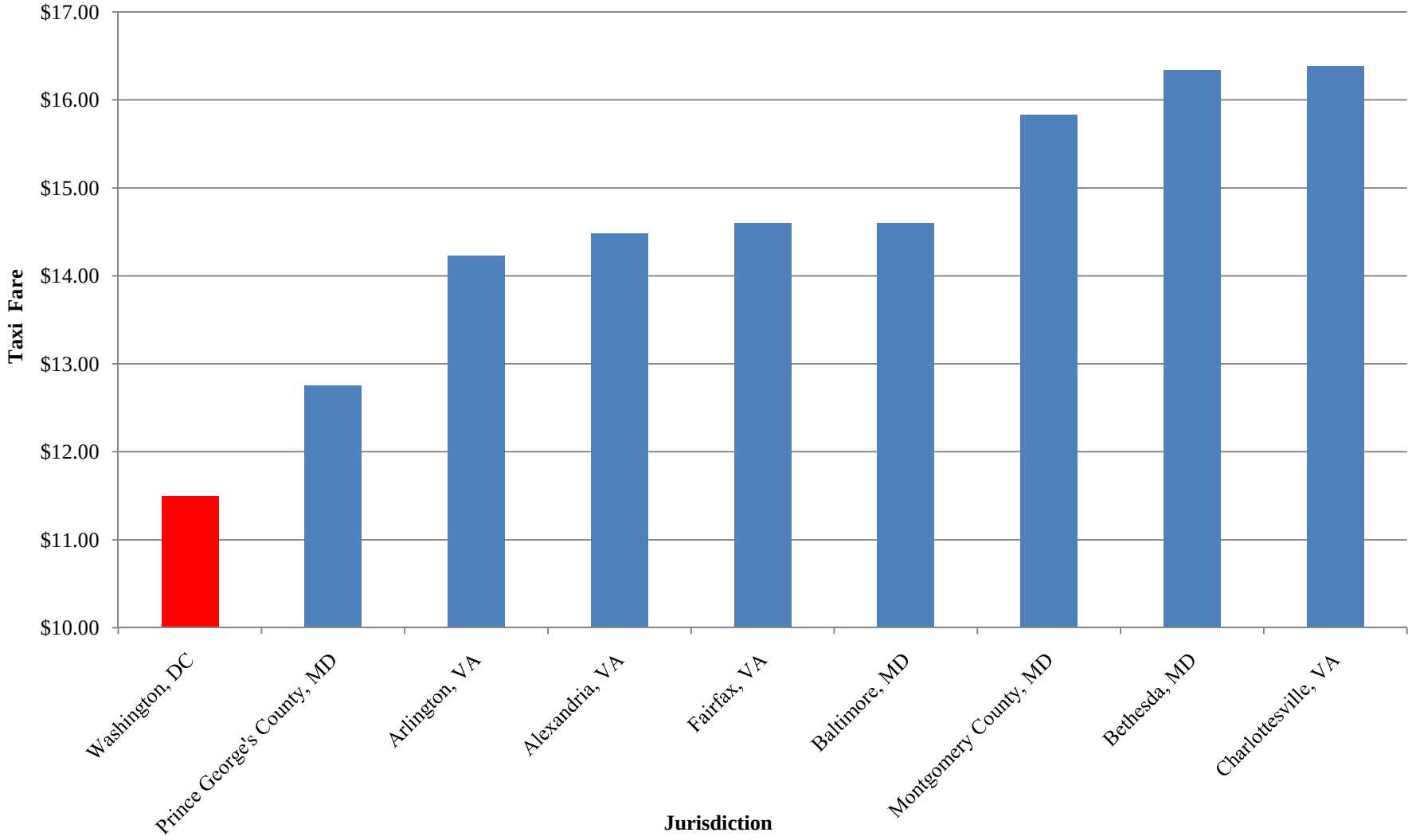
Comparison to Other Major Cities

We also studied how the current D.C. taxi fares compare to those in other major cities. Our review of the available data demonstrates that Washington DC taxi fares are considerably lower than those in other metropolitan areas, including those with costs of living equal to or lower than the cost of living in D.C. This figure demonstrates DC's relative position. Similar to our analysis of fares in surrounding areas, we have calculated the taxi fare of a 5 mile trip with a 5 minute wait time, using current taxicab rates of major metropolitan areas, as shown on the left hand axis. On the bottom, we have plotted the cost of living indices for these same cities. Each point on this figure represents a city and demonstrates the average taxi fare associated with the 5 mile trip and 5 minute rate time versus the cost of living in that city. All other metropolitan areas analyzed here have taxi fares greater than Washington DC, which has the lowest fare for a 5 mile taxi trip with a five minute wait despite the fact that it has the fifth-highest average cost of living.

Included in this sample are two proximate metropolitan areas – Arlington and Baltimore. These two cities are denoted in green here. Baltimore has a lower cost of living and our illustrative taxi ride of 5 miles with 5 minutes of wait time would cost 27 percent more there than DC ($14.60 v. $11.50). In Arlington, which is close enough to have the same cost of living, this taxi ride would cost almost 24 percent more ($14.23 v. $11.50).

I'll now turn it over to my colleague, Dr. John Johnson.

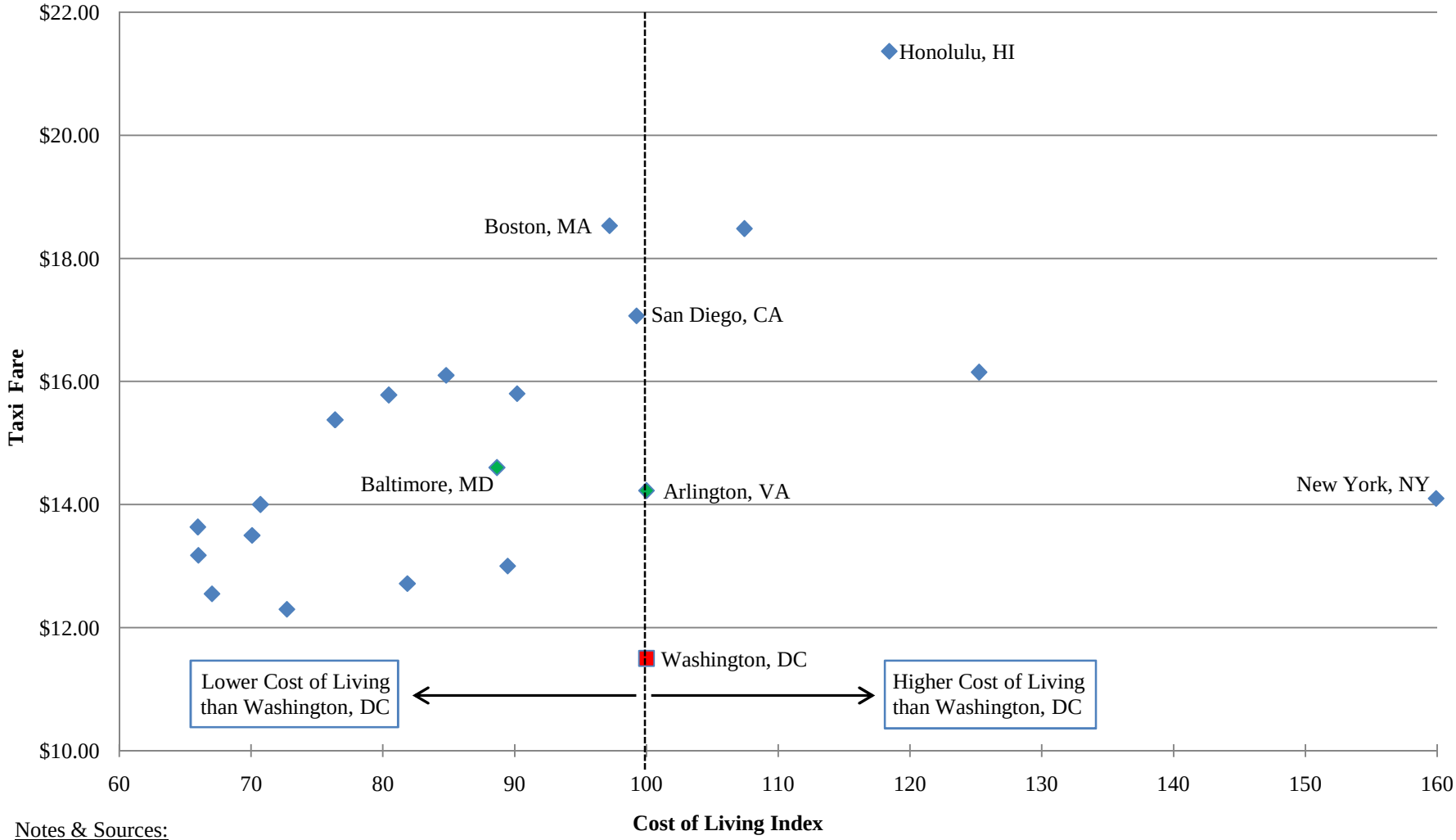
FARE FOR 5 MILE TRIP WITH A 5 MINUTE WAIT
IN AREAS SURROUNDING WASHINGTON, DC
2010



Source:

Taxi Operator Websites (Accessed June 10, 2010).

FARE FOR 5 MILE TRIP WITH A 5 MINUTE WAIT IN MAJOR U.S. CITIES



Notes & Sources:

Taxi Operator Websites (Accessed June 10, 2010).
ACCRA Cost of Living Index 2008.
COLI normalized such that Washington, DC = 100.

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Oral Testimony of Dr. John H. Johnson, IV

Before the Washington D.C. Taxicab Commission

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Oral Testimony of Dr. John H. Johnson, IV

My name is John Johnson. I am a PhD economist and President and Founder of Edgeworth Economics, an economic consulting firm located in Washington DC. I am also an Affiliated Professor at the Georgetown Public Policy Institute. I have a PhD in economics from the Massachusetts Institute of Technology and a Bachelors degree in economics from the University of Rochester. As a professional economist, I've studied rate-setting and valuation issues in a variety of contexts for more than a decade. I'd like to follow on Dr. Gorski's discussion by talking about DC taxicab fares relative to other forms of transportation, as well as looking at the supply of taxis in DC, which is an issue pertinent to rate setting.

Comparison to Other Metro Rail and Bus

We studied taxicab and Metrorail fares in other major cities relative to those in Washington DC. For the same cities we calculated the average fare of a 5 mile taxicab ride with 5 minutes of wait time, we also calculated the average one-way Metrorail fare. Across these cities, Washington DC has the third highest average one-way metro fare, below only San Francisco and Denver. Of the cities in the surrounding area, Baltimore's Metrorail fare is close to half the cost of DC's, but as we discussed before its taxicab fares are 27 percent greater. These data suggest a dramatic asymmetry between Metrorail and taxicab fares in DC relative to other major metropolitan areas.

DC's substantial average Metrorail fare (relative to other major cities) is in part due to continued increases in fares over time. Metrorail has implemented significant fare increases in 2003, 2008 and we understanding will be increasing rates again this month. Based on the average Metrorail fare of a 5 mile trip, metro increased peak fares more than 9 percent in 2003, another 10 percent in 2004, 22 percent in 2008, and I understand will be increasing fares at least 15 percent this year.[1] DC Metrobus has

[1] *See* Ann Scott Tyson, The Washington Post, "Bus riders see inequities in proposed Metro fare increases," March 29, 2010; Ann Scott Tyson and Lisa Rein, The Washington Post, "Metro approves broad fare increase, peak-use surcharges," May 28, 2010.

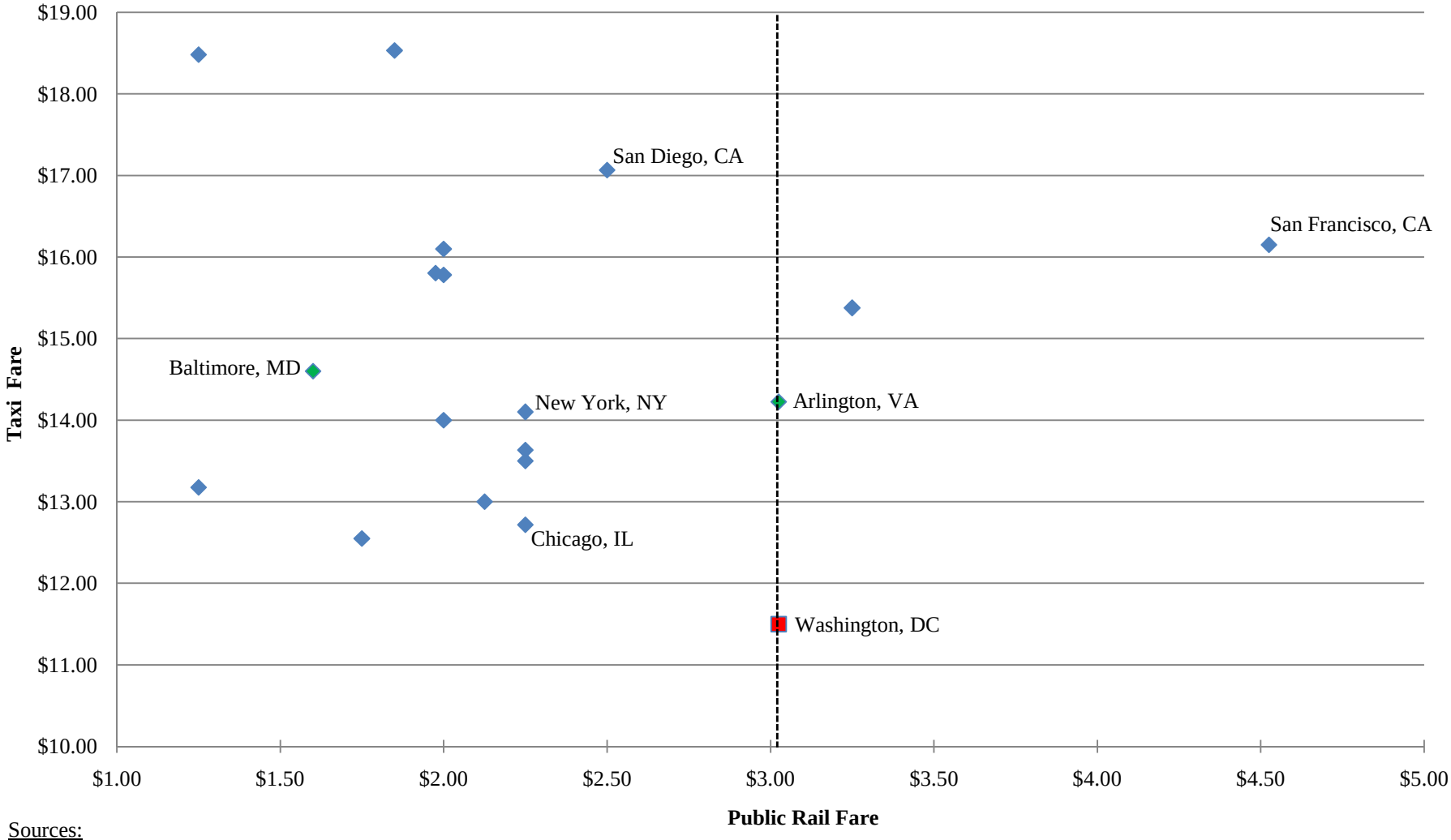
experienced similar rate increases. In 2003, Metrobus fares increased 9 percent; 4 percent in 2004; 8 percent in 2008 and are expected to increase at least 20 percent this year. These increases have been dramatic and continued; and, have *not* been met by similar changes in the taxicab fare structure.

Potential Explanations of Low Fares in DC

One factor that may potentially explain some differences in taxi rates across metropolitan areas is the supply of taxicabs. Based on available data, we have examined the number of taxicabs per 1,000 individuals in major US cities. Of those cities examined, excluding Washington DC, the average number of taxis per 1,000 people was 2. In DC, however, that figure is 11. In this sample of selected cities, DC is the only city without a limit on the number of cabs. All of the other cities shown had limits on the number of licenses as of 2006. Theoretically, when a limit on the number of taxis exists – that is, the number of taxis is artificially reduced – the market clearing taxi rates likely can be higher.

As the Commission determines whether DC taxicab rates are fair, it is important to consider the prevailing rates in context. Our goal here today is to offer testimony on this context. It seems apparent that each of the benchmarks we have analyzed demonstrates that the taxicab fares in DC are low – low relative to rates in immediately surrounding areas; low relative to major metropolitan areas with similar costs of living; low relative to the costs associated with riding other forms of transportation in the DC area. As well, the dramatic and substantial volume of taxis in DC relative to other major cities is another indicator that may explain these differences in taxi rates. Overall, these comparisons indicate that the Commission should at a minimum undertake a comprehensive study of the current DC taxi rates to determine what a fair rate would in fact be.

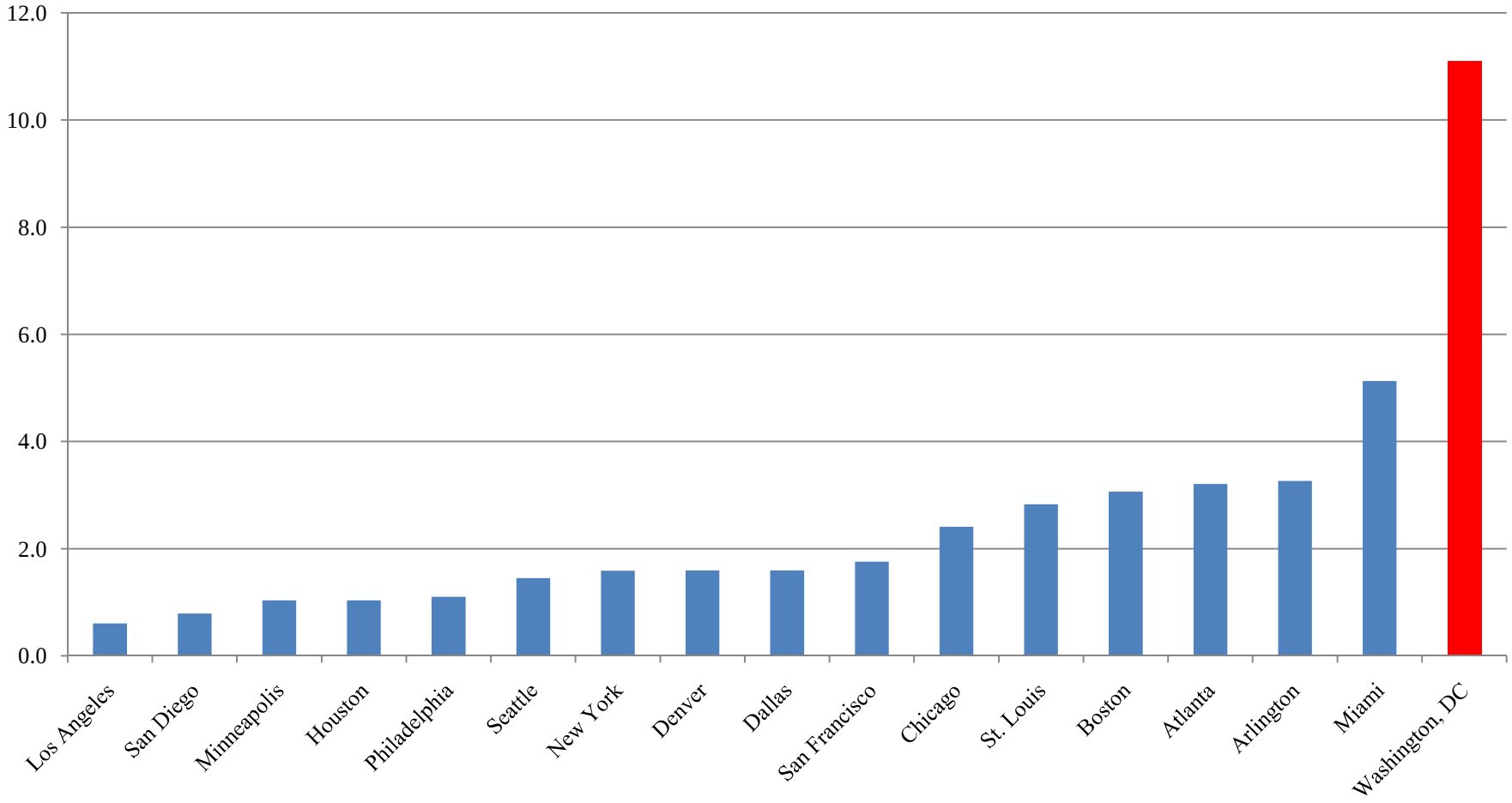
COMPARISON OF FARES FOR 5 MILE TAXI TRIP WITH A 5 MINUTE WAIT AND AVERAGE PUBLIC RAIL IN MAJOR U.S. CITIES



Sources:

Public Rail Operator Websites (Accessed June 10, 2010).
Taxi Operator Websites (Accessed June 10, 2010).
For systems with multiple fare classes, fare is calculated as average of the highest and lowest possible full fares.

NUMBER OF TAXIS PER 1,000 PEOPLE
IN MAJOR U.S. CITIES
2006



Sources:

Bruce Schaller, *Entry Controls in Taxi Regulation: Implication of US and Canadian experience for taxi regulation and deregulation*, SCHALLER CONSULTING. http://www.schallerconsult.com/taxi/entrycontrol.pdf. (Accessed June 10, 2010).

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